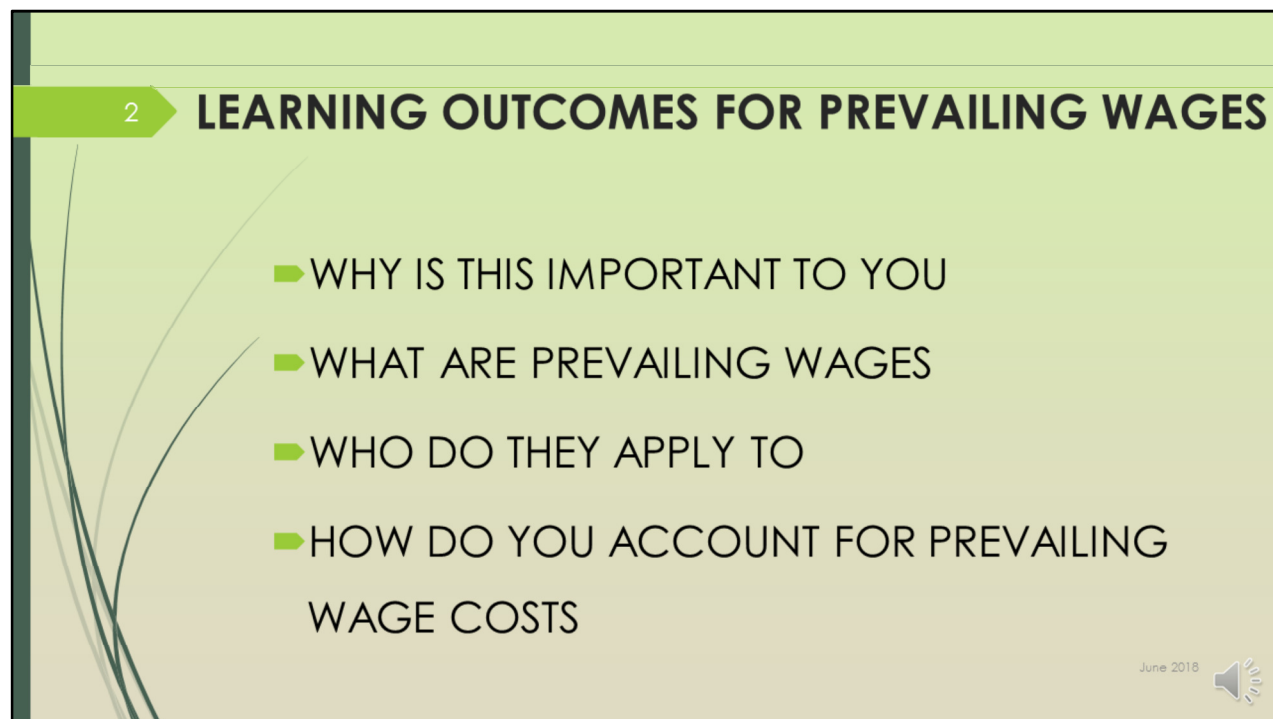


Welcome to the training module on Prevailing Wages for Architectural and Engineering Contracts, part 1 of 2.


In this first module, we will discuss general information on Prevailing Wages.

In the second module, will discuss specific accounting methods on how to account for Prevailing Wages.



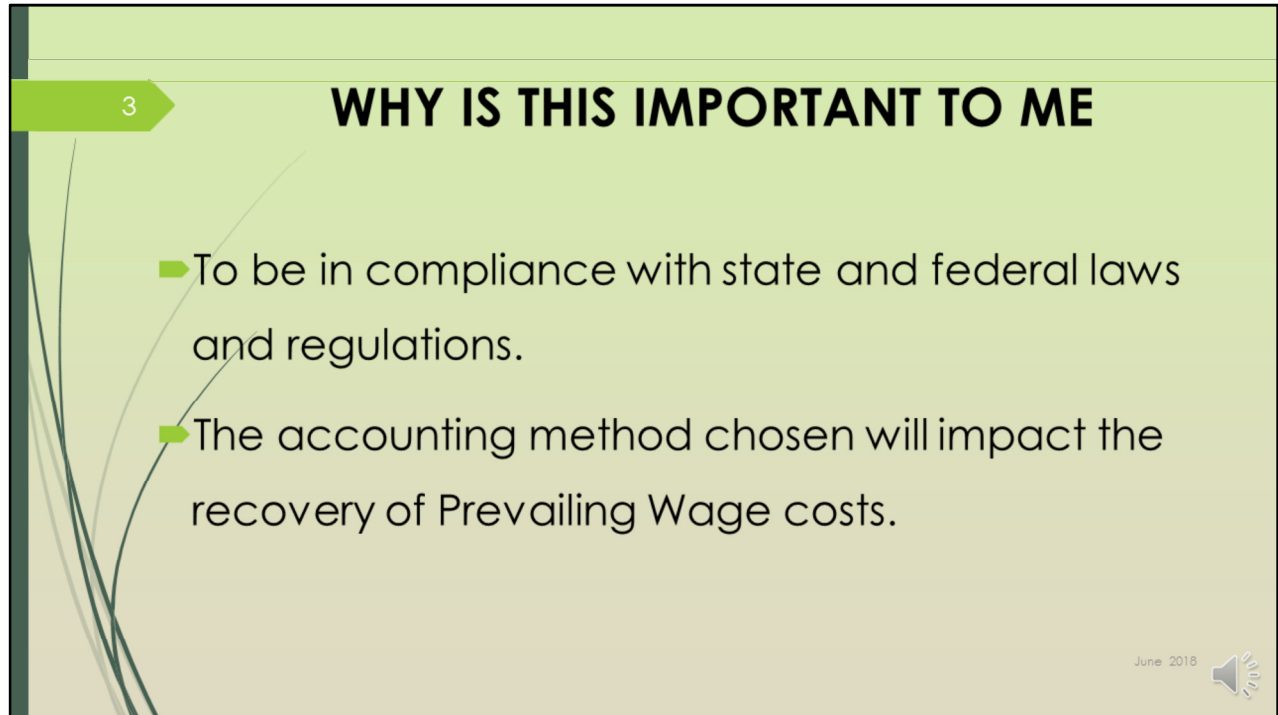
2 **LEARNING OUTCOMES FOR PREVAILING WAGES**

- WHY IS THIS IMPORTANT TO YOU
- WHAT ARE PREVAILING WAGES
- WHO DO THEY APPLY TO
- HOW DO YOU ACCOUNT FOR PREVAILING WAGE COSTS

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Here are the learning outcomes for this training module:

- Why is this topic important to you?
- What are Prevailing Wages?
- Who do they apply to?
- How do you account for prevailing wage costs?



3 **WHY IS THIS IMPORTANT TO ME**

- ▶ To be in compliance with state and federal laws and regulations.
- ▶ The accounting method chosen will impact the recovery of Prevailing Wage costs.

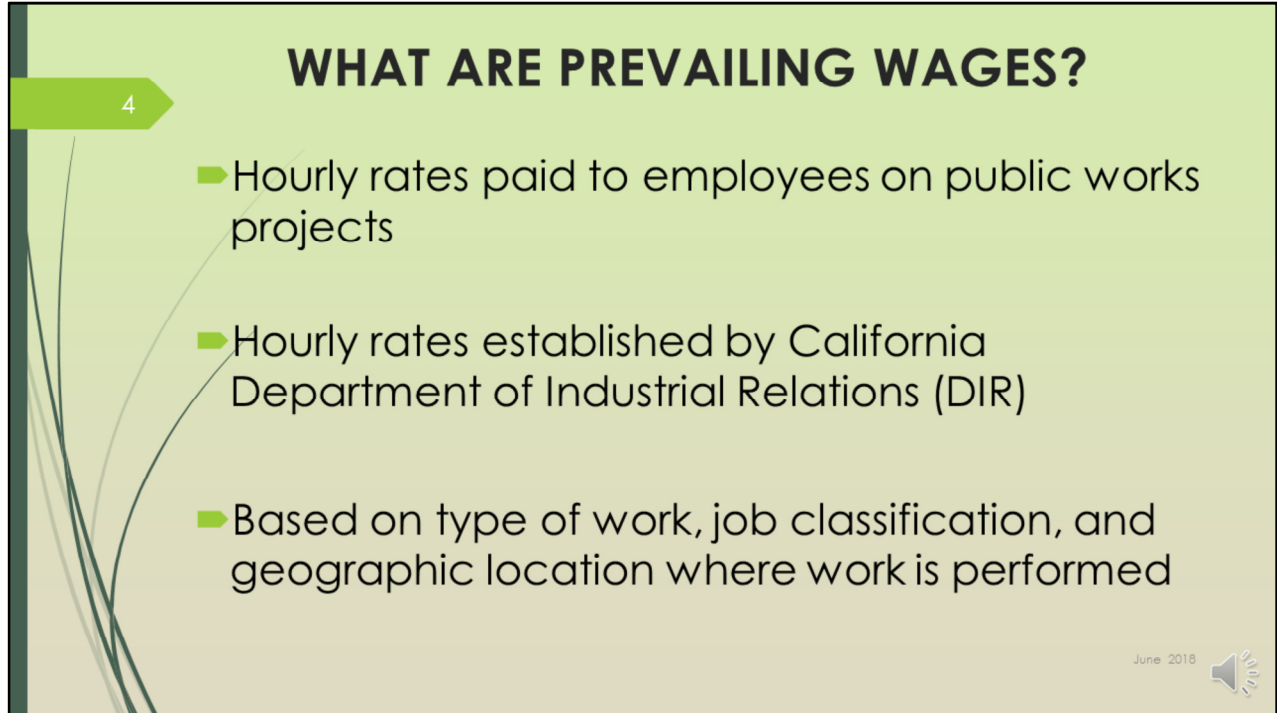
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So why is this topic important?

The reason why Prevailing Wages are important for A&E firms is so they can be in compliance with state and federal laws and regulations. We will discuss these laws and regulations in more detail in the second module.

In addition to being in compliance with the law, it is also important for A&E firms to understand how the accounting of Prevailing Wage costs impact their financials. There are three different methods to account for Prevailing Wages, and each one has a different effect on a firm's financials.

So A&E firms have both legal and financial reasons to properly understand Prevailing Wages.



WHAT ARE PREVAILING WAGES?

- ▶ Hourly rates paid to employees on public works projects
- ▶ Hourly rates established by California Department of Industrial Relations (DIR)
- ▶ Based on type of work, job classification, and geographic location where work is performed

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So what are Prevailing Wages?

Let's look at the definition. The California Department of Industrial Relations (DIR) defines Prevailing Wages as "hourly rates to be paid on public works projects to workers engaged in a particular craft, classification, or type of work within the locality or the nearest labor market area."

So prevailing wages are wages set by the DIR and applied to workers on public works projects in certain locations, doing certain types of work, in certain job classifications.

In addition to this definition, it is also important to note that DIR Prevailing Wages can also require that Straight Time and Overtime be paid to employees, regardless of their status as exempt or non-exempt.



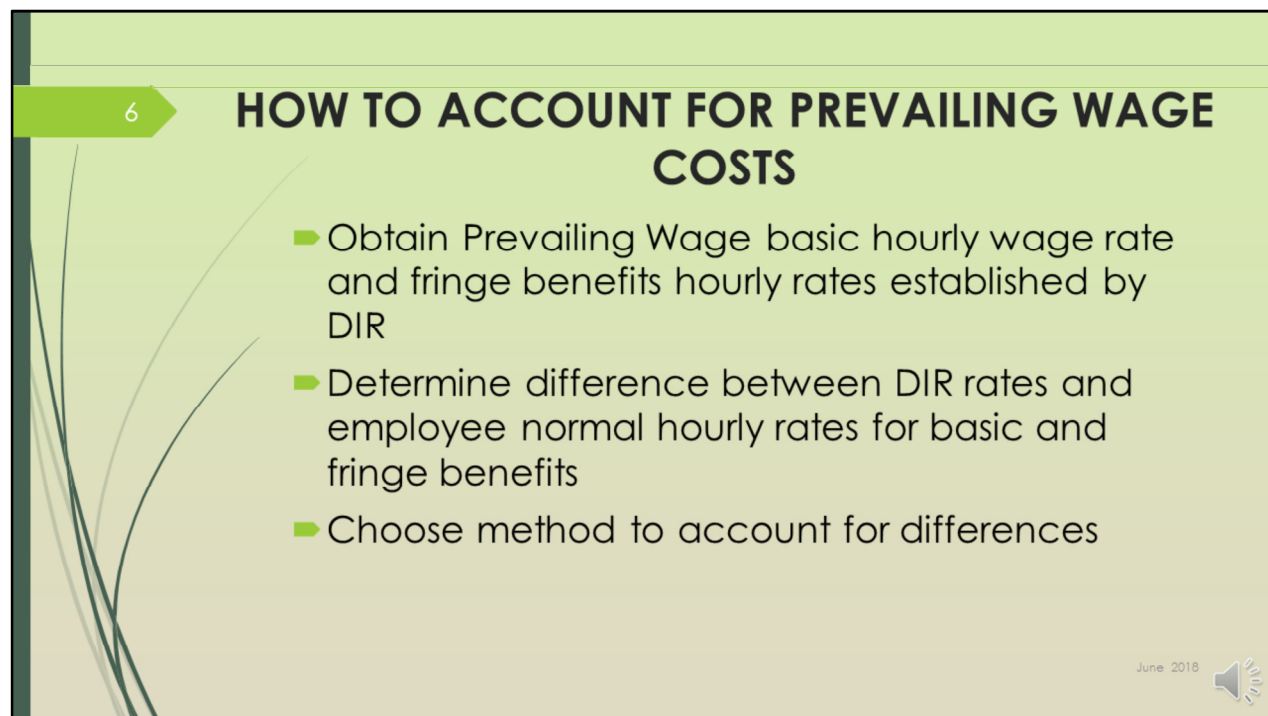
5 WHO DO THEY APPLY TO

- ▶ A&E firms contracting with Caltrans and/or Local Government Agencies on public works projects over \$1,000.

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So who do Prevailing Wage Requirements apply to?

Prevailing wage requirements apply to A&E firms working on public works projects in California and contracting with Caltrans and/or Local Government Agencies when the public works project is over \$1,000.



6 HOW TO ACCOUNT FOR PREVAILING WAGE COSTS

- Obtain Prevailing Wage basic hourly wage rate and fringe benefits hourly rates established by DIR
- Determine difference between DIR rates and employee normal hourly rates for basic and fringe benefits
- Choose method to account for differences

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Now we will discuss how to account for Prevailing Wage Costs:

In this module, our goal is merely to know the steps required, so we will just touch on them here.

In the second module, our goal is to actually be able to apply the steps, and we will discuss each of the steps in great detail.

OK, there are three basic steps to determining Prevailing Wage Costs:

- The first step is to determine the Prevailing Wages by obtaining the Prevailing Wage “basic hourly rate” and “fringe benefit hourly rate” established by the DIR for the applicable locality and job classification.
 - Of note: When you are doing this on the DIR website, it refers to “fringe benefits” as “employer payments.”
- The next step is you will determine the difference between DIR’s Prevailing Wage “basic hourly rate and fringe benefit hourly rate” and each affected employee’s normal “basic hourly rate and fringe benefit hourly rate.” So you will determine the differences.
- Finally, you will choose one of the three approved methods to account for these differences.

So, the three steps are essentially to: determine the Prevailing Wage rates, determine the differences between the Prevailing Wage Rates and your staff normal rates, and then choose a method to account for the differences.

DELTA BASE AND DELTA FRINGE

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- Difference between DIR basic hourly wage rate and employee's actual base hourly wage rate is referred to as **Delta Base**.
- Difference between DIR hourly fringe benefits rate and employee's actual hourly fringe rate is referred to as **Delta Fringe**

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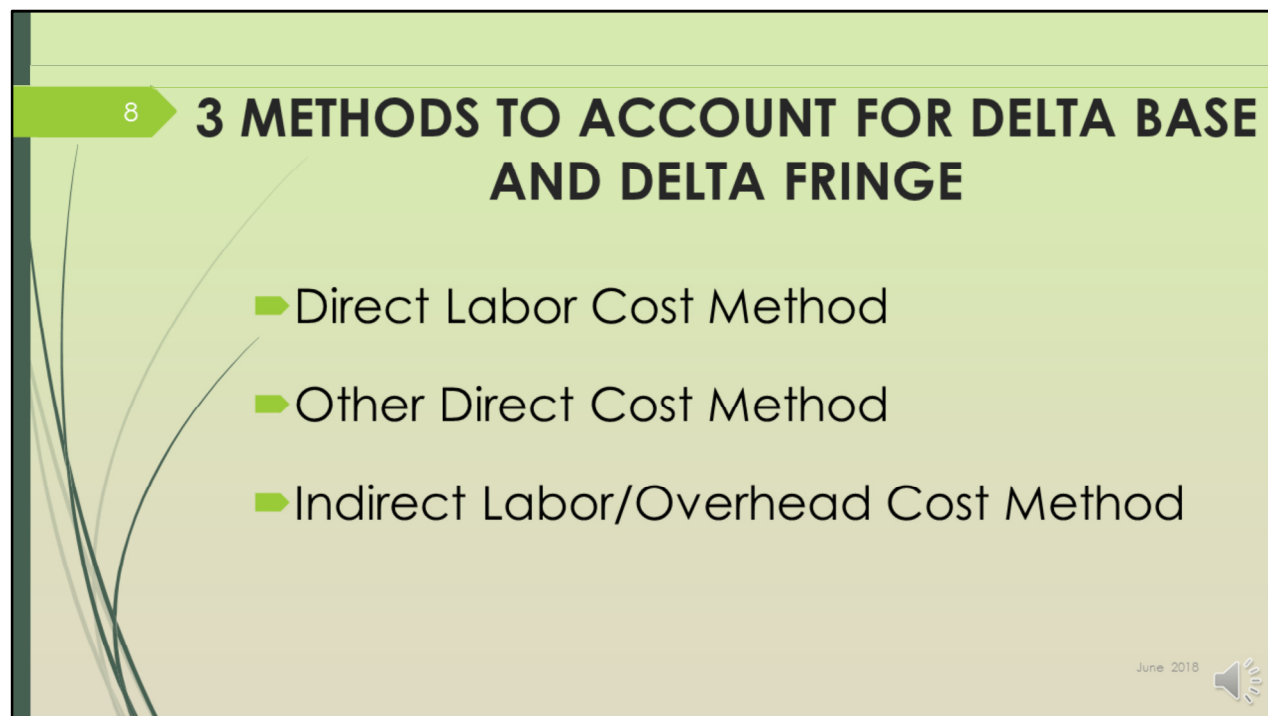
Now we will discuss Delta Base and Delta Fringe

The payment of prevailing wages to employees can result in A&E firms paying amounts over their employee's regular wages, benefits, or both. These additional amounts paid are referred to as prevailing wage deltas. The term comes from the delta symbol, meaning change, which is used to designate the differences.

The difference between the DIR basic "(or base) hourly wage rate" and an employee's actual "base hourly wage rate" is referred to as Delta Base.

The difference between DIR's "hourly fringe benefit rate" and an employee's actual "hourly fringe benefit rate" is referred to as Delta Fringe.

So Delta Base and Delta Fringe are another way of saying the differences between Prevailing Wage rates and normal rates as applied to base and fringe wages.



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3 METHODS TO ACCOUNT FOR DELTA BASE AND DELTA FRINGE

- Direct Labor Cost Method
- Other Direct Cost Method
- Indirect Labor/Overhead Cost Method

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The Three Methods to Account for Delta Base and Delta Fringe

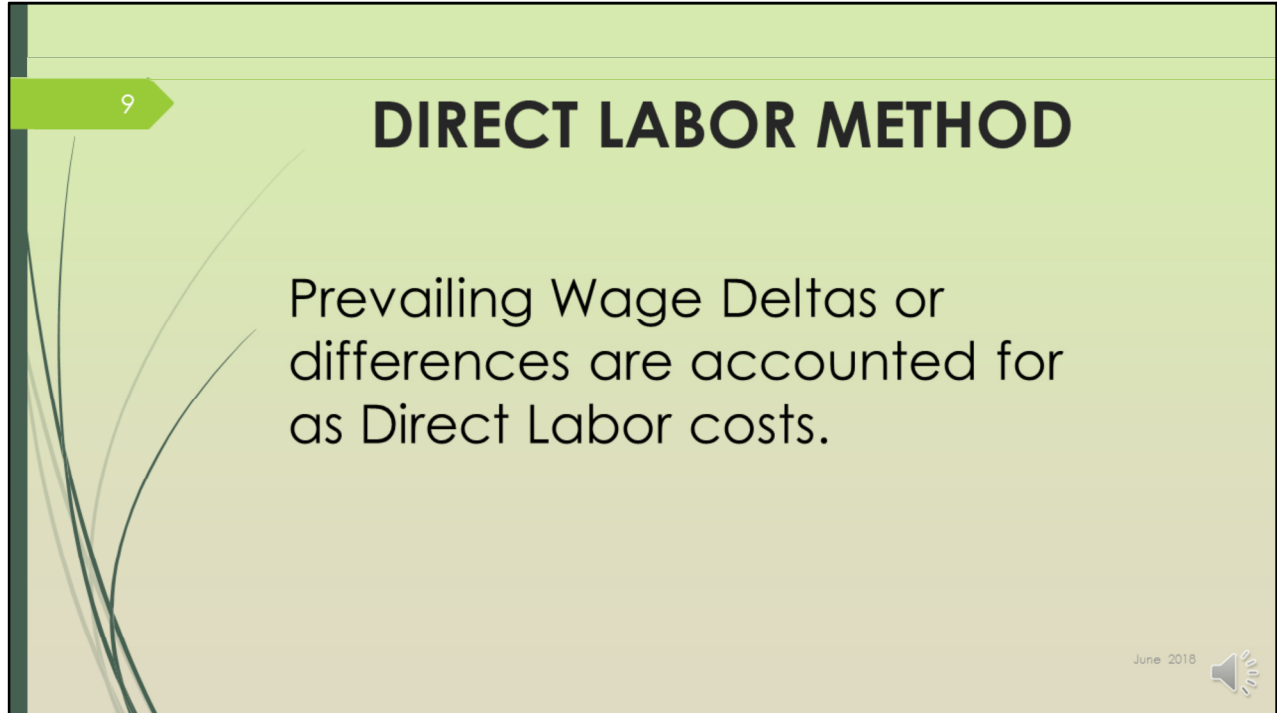
There are three methods A&E firms may use to account for prevailing wage delta costs. The methods are:

- The Direct Labor Cost Method
- The Other Direct Cost Method, and
- The Indirect Labor Cost Method, which is also known as the Overhead Cost Method

It is allowable for a firm to use one accounting method for the Delta Base and a different accounting method for the Delta Fringe, provided the firm consistently uses the same methods respectively for billing on all contracts.

For those consultants who have not yet encountered deltas, an accounting method or methods must be established for the Delta Base and Delta Fringe. Firms must choose an accounting method or methods to use, and establish a written policy on how to account for the delta base and the delta fringe across all contracts.


As a guide to assist A&E firms in gaining a better understanding of how to account and bill for Prevailing Wages, A&I has developed a Prevailing Wage Interpretive Guidance that can be accessed at A&I's website which is listed on our resources page at the end of this module.



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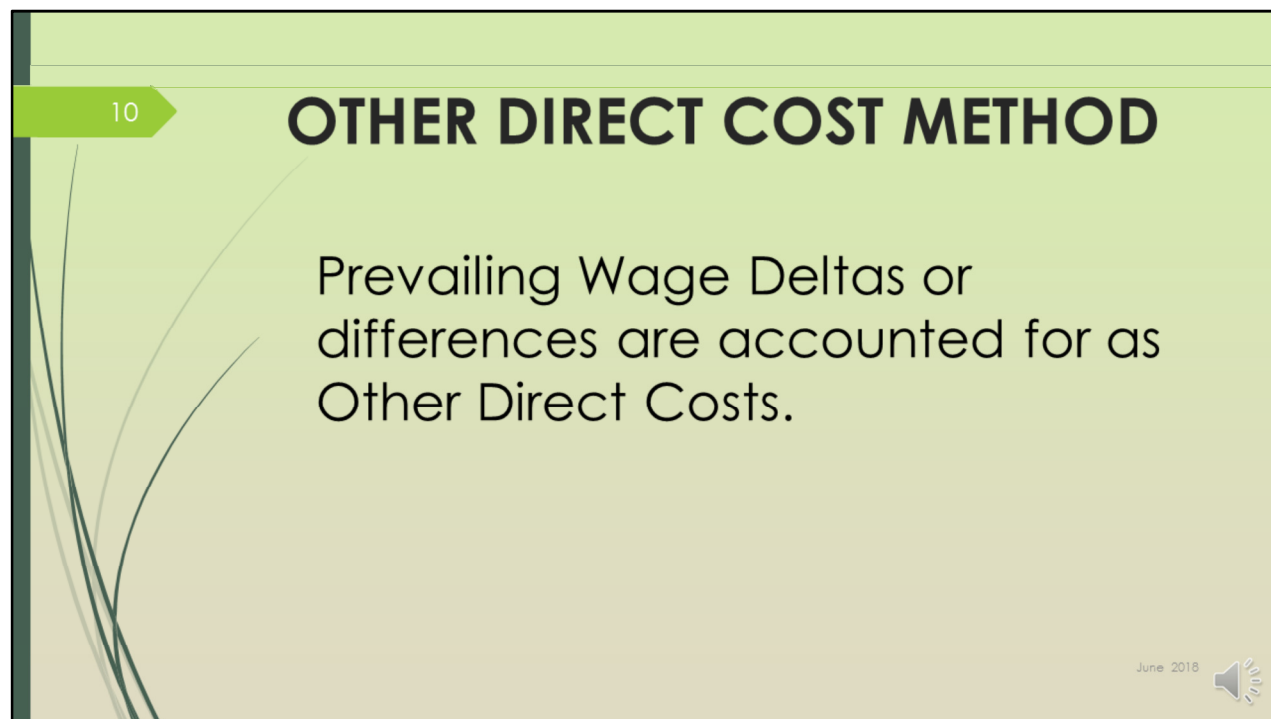
DIRECT LABOR METHOD

Prevailing Wage Deltas or differences are accounted for as Direct Labor costs.

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Now we will briefly discuss the three methods. In this module, which is just a high level overview, we will simply state what the methods are. In the second module, we will go into more detail and show you how the methods affect the Indirect Cost Rate.

The first method is the Direct Labor Method. For the Direct Labor method, the Deltas or differences are accounted for as direct labor costs.



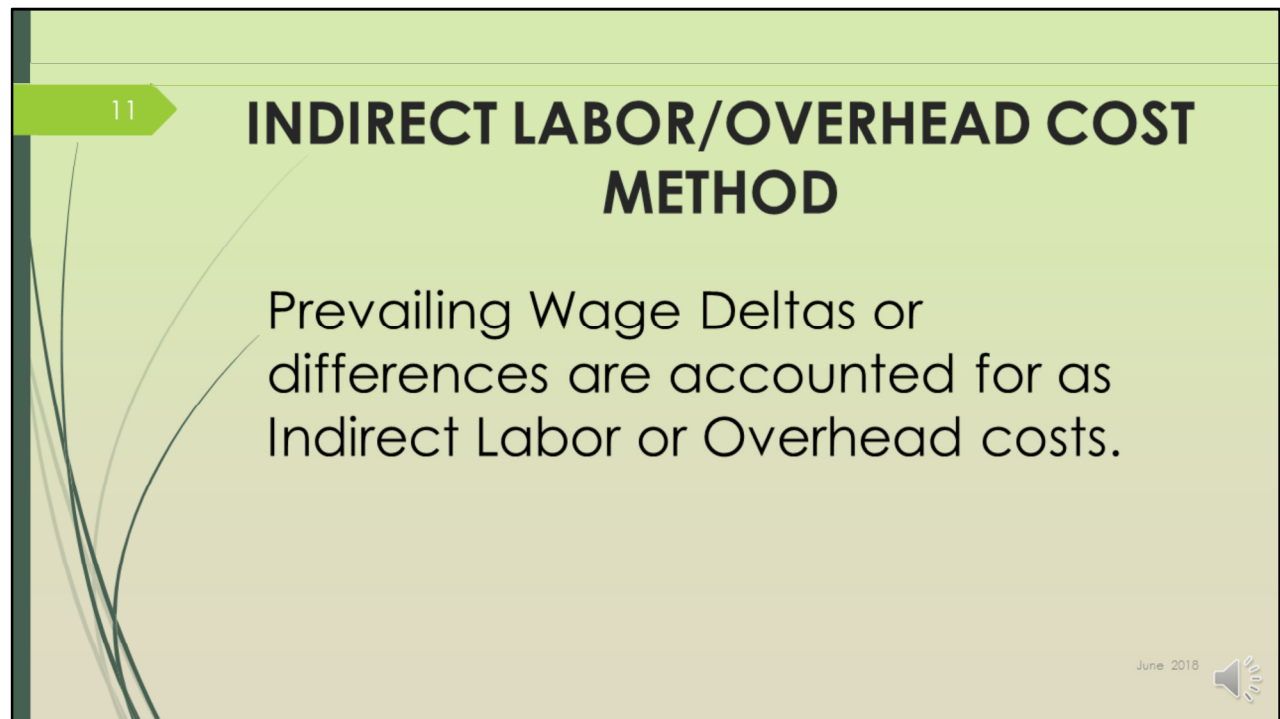
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OTHER DIRECT COST METHOD

Prevailing Wage Deltas or differences are accounted for as Other Direct Costs.

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The Other Direct Cost Method. For the Other Direct Cost method, Deltas are accounted for as Other Direct Costs.



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INDIRECT LABOR/OVERHEAD COST METHOD

Prevailing Wage Deltas or differences are accounted for as Indirect Labor or Overhead costs.

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Finally, The Indirect Labor or Overhead Cost Method. For the Indirect Labor/Overhead Cost Method, Deltas are accounted for as Indirect Labor.

Essentially, the name for each method states how the Deltas will be accounted for, as either Direct Labor, Indirect Labor, or Other Direct Costs.

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ACCOUNTING AND BILLING FOR PREVAILING WAGE DELTAS

Consultants should ensure the billing of Prevailing Wage Deltas is consistent with how they account for Deltas.

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Accounting and Billing for Prevailing Wage Deltas.

Now that we have identified the three different accounting methods to account for Prevailing Wages, it is important to note that consultants should bill Prevailing Wage Deltas consistently with how they account for them.

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RESOURCES

- American Association of State Highway and Transportation Officials (AASHTO) Uniform Audit & Accounting Guide for Transportation Consultants, 2016 Edition or refer to :
 - <https://audit.transportation.org/?siteid=43>.
- California Department of Industrial Relations (DIR):
 - <http://www.dir.ca.gov/Public-Works/Prevailing-Wage.html>.
- Independent Office of Audits and Investigations (A&I) for Interpretive Guidance:
 - <http://www.dot.ca.gov/audits/>.

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These are the resources that A&E firms can refer to about Prevailing Wages:

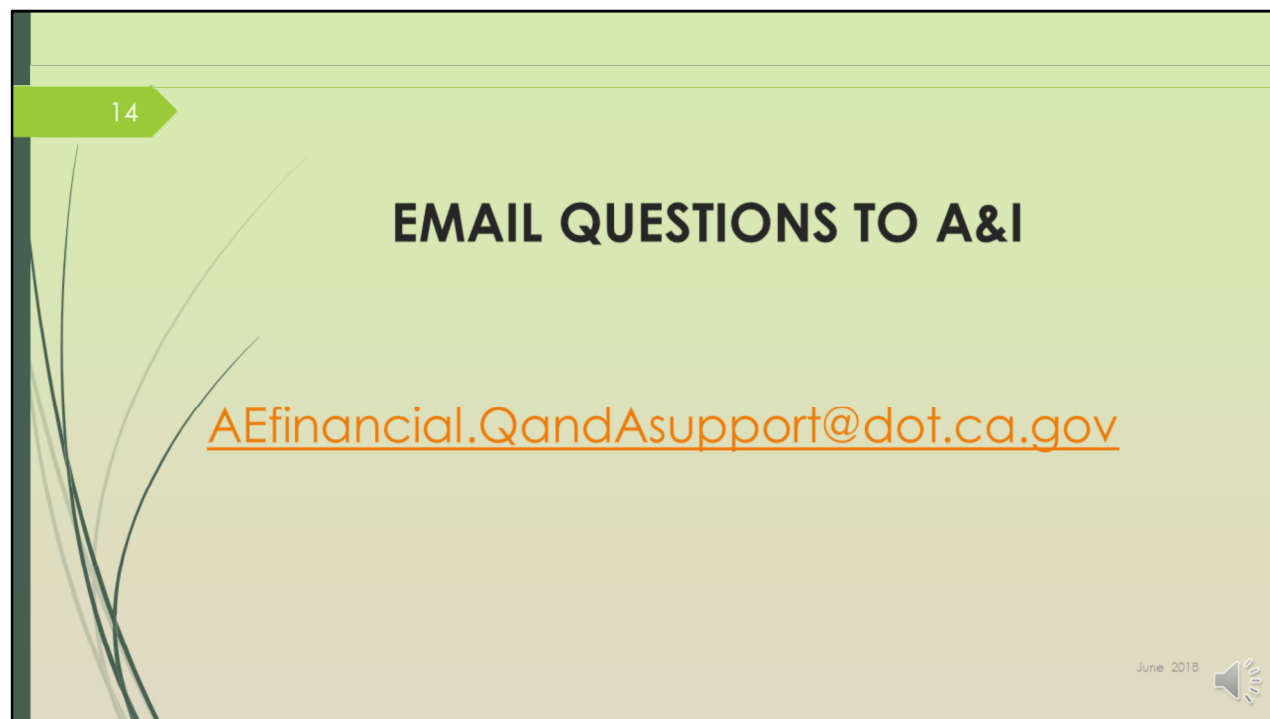
The AASHTO Website which also provides accounting guidance and examples of indirect cost rate schedules.

The California Department of Industrial Relations Website which includes:

- California Prevailing Wage Laws
- Wage Determinations
- Frequently Asked Questions

A&I's Website which is where you will find:

- Prevailing Wage Interpretive Guidance
- Prevailing Wage Training Modules
- Other interpretive guidance, webinars, and resources.



We hope this training module provided you with general information on Prevailing Wages and how to account for them.

If you want to know more, we encourage you to view the second training module where we will discuss in greater detail how the different accounting methods impact the Indirect Cost Rate.

If you have any additional questions about this topic or training module, you may contact us at the e-mail address shown here.



This concludes our training. We thank you for your participation!